



REGISTRY OF FRIENDLY SOCIETIES  
BUILDING SOCIETIES ACTS, 1894 AND 1960

EXAMINATION INTO THE  
AFFAIRS OF  
LLOYDS PERMANENT BUILDING  
SOCIETY

FINAL REPORT OF THE INSPECTOR

(Appointed by the Chief Registrar of Friendly Societies  
pursuant to Section 5 of the Building Societies Act, 1894  
and Section 13 of the Building Societies Act, 1960)

LONDON  
HER MAJESTY'S STATIONERY OFFICE  
THREE SHILLINGS NET





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## LLOYDS PERMANENT BUILDING SOCIETY

Register No. 335 B

FINAL REPORT OF THE INSPECTOR APPOINTED TO EXAMINE INTO AND REPORT ON THE AFFAIRS OF THE SOCIETY, PURSUANT TO THE PROVISIONS OF SECTION 5 OF THE BUILDING SOCIETIES ACT, 1894 AND SECTION 13 OF THE BUILDING SOCIETIES ACT, 1960.

### Introduction

1. I was appointed Inspector by the Chief Registrar of Friendly Societies on the 3rd February, 1961.

2. The grounds upon which the Chief Registrar proposed to appoint an Inspector were communicated to the society in the following terms:—

- “(1) The increasingly difficult financial position of the Society as the result of the abnormally large number of applications for withdrawal of share monies by investing shareholders of the Society.
- (2) The preference given to certain investors in repayment of their shares before those who have made earlier application for withdrawal.
- (3) The failure of the board of directors, and in particular the chairman and Secretary, to give proper attention to the affairs of the Society.”

3. I presented an interim report on my examination of the affairs of the Society on the 17th February, 1961. The principal purpose of submitting an interim report was to enable members to have before them at a general meeting information as to the state of affairs of the society; no general meeting of the society had been held since 18th December, 1959 and neither the accounts for the year ended 31st December, 1959 nor any more up-to-date information of the financial position of the society had been presented to the members. As explained in my interim report, the financial position and administration of the society was in a critical state and in my opinion called for early consideration by the shareholders. This report should be read in conjunction with the interim report.

4. Following the issue of my interim report the board of directors called a special general meeting of the members of the society, which was held on the 28th March, 1961. At this meeting the recently-elected chairman of the board of directors, Mr. Ernest Partridge, C.B.E., M.P., made a general statement on the affairs of the society and announced that the annual general meeting of the society would be held on 26th April, 1961 and would be adjourned to a later date in order that properly audited accounts for the year 1960 could then be presented to the members.

### Reconstruction of the Board of Directors

5. At the time of my appointment the directors of the society appeared to be Mr. Robert Jones, Mrs. Betty Madge Jones and Mrs. June Irene Jones. An attempt had been made by Mrs. B. M. Jones and Mrs. J. I. Jones to

remove Mr. Robert Jones from his offices as chairman, director and secretary on the ground of his refusal and neglect to act. Mr. Robert Jones challenged the validity of the resolution for his removal from these offices and on the 6th February, 1961 a further resolution was stated to have been passed in the following terms:—

"That in accordance with rule 33 (1) (g) it is in the interests of the Society that Robert Jones should, and he shall hereby, immediately cease to be a director of the Society."

6. Although Mr. Jones continued to challenge the validity of these proceedings he took no further steps to re-establish any right to act as a director or as secretary and on the 9th February a further meeting of the board was held at which Mrs. B. M. Jones and Mrs. J. I. Jones were present and a resolution was recorded as having been passed electing Mr. Ernest Partridge as a director and chairman and appointing Mr. E. G. Roe, formerly assistant secretary, as secretary of the society.

7. On the 1st March, Air Chief Marshal Sir Hugh Lloyd, G.B.E., K.C.B., M.C., D.F.C., was elected a director to fill the vacancy caused by the death of a former director, Mrs. Janet Jones. On the 10th March Mrs. B. M. Jones and Mrs. J. I. Jones resigned their directorships and Mr. Victor Brooks and Mr. William W. Harris, O.B.E., J.P. were appointed to the board to fill the vacancies. The board has since consisted of Mr. Partridge (chairman), Sir Hugh Lloyd, Mr. Brooks and Mr. Harris.

#### **Administration**

8. On his appointment as chairman of the board, Mr. Partridge, with the support of his fellow directors, took immediate and effective steps to reorganise the administration of the society and to place the conduct of its affairs on an efficient and business-like basis.

9. The services of staff in the head office and branches no longer required in the changed circumstances of the society were dispensed with and instructions were given for the disposal where practicable of the branch premises and all but one of the motor cars.

10. The use by Freehold Land Finance Company Limited of the society's head office and branch premises and staff was terminated and a writ was issued against Mr. Robert Jones for the return of various items of office furniture and equipment which it was alleged had been removed to Mr. Jones's house at "Stilemans", or alternatively, for recovery of the value of the goods, damages and costs. Most of this furniture and equipment has since been returned to the society by Mr. Jones.

11. The services of an Assistant General Manager of the Abbey National Building Society were secured on a part-time basis for consultation and advice. This arrangement has since terminated but the board has recently appointed a former official of the Co-operative Permanent Building Society with experience in a large-scale building society organisation as assistant secretary.

12. Most of the administrative burden, however, has been shouldered by Mr. Partridge, who in effect has acted as general manager of the society as well as chairman of the board.

#### **State of affairs of the society as at 31st December, 1960**

13. The approximate statement of affairs of the society as at 31st December, 1960, which was appended to my interim report showed an estimated overall deficit of £37,781 at depreciated book value of the assets

and £15,513 at estimated realisable value of the assets. As was explained in the report this statement had not been audited and no figures were included in respect of any sum that might be deemed to be due from the Freehold Land Finance Company Limited for the use by that company of the society's premises, equipment and staff. A claim has since been made by the society against the company in this matter which I will refer to later in this report.

14. The audit of the accounts of the society for the year 1960 was completed on the 2nd June, 1961. The accompanying report of the directors was dated 19th June, 1961, and the accounts were presented to the adjourned annual general meeting on the 12th July and adopted. A copy of the accounts and of the auditors' report thereon, a copy of the report of the directors and a copy of observations of the chairman on the auditors' report are attached to this report (Appendices A, B, C and D).

15. The audited balance sheet shows a general reserve and balance of surplus carried forward amounting to £11,370. There are various differences between the figures in the two statements but the conversion of a deficit into a surplus is mainly accounted for by differing provisions for interest to shareholders.

16. Interest on shares had been shown in the society's brochures as payable at rates varying between 4 per cent and 5 per cent per annum according to the class of share. But some of the brochures issued by the society stated that share interest was subject to the rules and the share certificates stated that the shares were "subject to the rules and regulations of the society for the time being in force". On the other hand, the form of application for investment in shares made no reference to the society's rules. The society's rule 11 (1) reads as follows:—

"11.—(1) The rates of interest and dividend or bonus (if any) to be paid on shares, and the conditions subject to which the same shall be payable, shall from time to time be determined by the Board. Any rate of interest may at any time be altered by the Board; provided that prior notice of a reduction in the rate of interest shall be given to Members affected thereby. Any reduction, however, may be declared to be retrospectively effective from the then last date on which interest was paid or credited, if the Board considers such a declaration to be in the best interests of the Society."

The new board of directors decided by resolution dated 19th June, 1961, that the rate of interest on shares should be reduced to  $1\frac{1}{2}$  per cent per annum retrospectively from 1st July, 1960. In the statement of affairs, which had been prepared in February, 1961, the provision for interest had been based on the rates of interest then current. The effect of this reduction in the rate of interest was to release a sum of approximately £57,000.

17. The accounts, as may be seen, are subject to a qualified report by the auditors. Under sections 39 and 40 of the Building Societies Act, 1960, the directors of every building society are required to lay before the building society at the annual general meeting (a) a revenue and appropriation account and (b) a balance sheet giving respectively a true and fair view of the income and expenditure of the building society for the preceding financial year and a true and fair view of the state of the affairs of the building society as at the end of the financial year. By section 45, the auditors are required to report *inter alia* whether in their opinion the revenue and appropriation account and the balance sheet similarly give respectively a true and fair view. In their report the auditors set out their reservations in

twelve paragraphs, most of which deal with matters to which I drew attention in my interim report. There is one paragraph, however, upon which I should like to offer further comments at this point. This concerns the reference in paragraph 2 to the adequacy of the society's reserves against possible losses on foreclosure or sale of mortgaged properties.

18. At the 31st December, 1960 the specific reserves against mortgages were shown in the balance sheet as £2,000 by way of provision for anticipated losses on mortgages and £10,000 by way of a "mortgage reserve", a total of £12,000. In addition the society had a general reserve and balance surplus carried forward totalling £11,370. The total mortgage debt at that date was £3,282,097.

19. I have examined the basis upon which the provision of £2,000 for anticipated losses on mortgages has been arrived at and I am of the opinion that this provision was justified.

20. The adequacy of the mortgage reserve of £10,000 which is presumably intended to provide against possible losses involves further consideration.

21. The chairman of the board of directors made the following observation on this part of the auditors' report:—

"The closest watch is being kept by the Management on the accounts regarding mortgaged properties. Although it cannot be said that the present reserves will definitely cover all possible losses it can be stated emphatically that the Directors intend steadily to increase the reserves while at the same time ensuring, as far as is humanly possible, that by constant care and attention losses will be kept to the absolute minimum."

22. It will be appreciated that the adequacy of the reserves against mortgages is of prime importance in any assessment of the society's solvency. There are two principal factors involved, i.e. the ability of the borrower to repay the instalments on the mortgage as they become due and the value of the mortgaged security.

23. It appears that little or no attempt was ever made under the direction of the previous board of directors to establish that the financial position of the borrower could be relied upon in this respect. The assessment of the borrowers' ability to repay the mortgage was based solely on the particulars given in their applications without further verification.

24. A recent review of the 1,181 mortgages outstanding showed that repayments were in arrear in no less than 223 cases, of which 150 were two months and upwards in arrear. Nevertheless, so far as the owner-occupier type of borrower is concerned there have been comparatively few serious defaults. There is little doubt that many of the arrears cases would not have arisen if prompt action had been taken to remind borrowers of their obligations. This is now being done and it is anticipated that the number of cases in arrear, which has been substantially reduced in the past few weeks, will be reduced still further. It is, however, impossible to say with confidence what the position would be if there were any general adverse economic development.

25. With regard to the value of house properties in mortgage to the society in relation to the mortgage debts it appears, and the Registrar's earlier investigations tend to confirm this, that in general fairly generous valuation assessments were made. Bearing in mind, however, that a large

proportion of the advances were made more than two years ago, since when house property values in general have increased considerably (probably on average by some 20 per cent), and that there has been some, albeit a relatively small, reduction in the principal debt outstanding because of repayments, it may be that at current values the security generally is not inadequate. The problem confronting the society, however, is whether those values will be maintained. In building societies which have followed a prudent mortgage policy the cushion against a recession in property values would be represented by the general reserves. In all societies the Registrar's statistics show that the total general reserves at the end of 1960 were equivalent to over 5 per cent of the mortgage assets. In this society the total reserves (including the "Mortgage Reserve" of £10,000) as shown in the audited balance sheet as at 31st December, 1960, amounted to only £21,370 or 0.65 per cent of the mortgage assets.

26. A further consideration to be borne in mind is the question of the indemnity premium reserve to which I referred in paragraphs 8 and 9 of my interim report. The indemnity premiums which were charged in respect of advances in excess of 80 per cent of the value of the mortgaged security were at first taken to a separate reserve. At the end of 1958 this reserve amounted to £22,337. In the accounts for 1959 both the indemnity premium reserve built up to the end of 1958 and the premiums received in 1959 (£30,500) were taken directly or indirectly to general reserve. A similar practice was adopted in the accounts for 1960, for which year the premiums amounted to £2,375.

27. These premiums represented a charge for an additional risk undertaken by the society which in most societies would have been insured with an insurance company. As the society chose to carry its own risk in this respect, clearly, on any prudent reckoning, the reserve should have been maintained separately from general reserve until the risk was eliminated.

#### **Transactions involving Mr. Robert Jones and Freehold Land Finance Company Limited**

28. The principal transactions in which Mr. Robert Jones, the former chairman of the board of directors of the society, was personally involved fall under three headings, viz. :—

- (1) Advances on the security of the houses and land comprising the estate known as "Stilemans", Munstead Heath, Godalming.
- (2) Advances on land known as the "Oak Farm", Farnborough, Hampshire.
- (3) Payments of directors' fees and travelling expenses.

29. The Freehold Land Finance Company Limited was involved in

- (1) Payments to the society which were allocated to the "Stilemans" and "Oak Farm" mortgages.
- (2) Use of the society's premises, staff and amenities.

#### **Advances on the security of "Stilemans"**

30. In paragraph 33 of my interim report I pointed out that according to the society's records the balance outstanding in respect of the advances on security of "Stilemans" was £26,434. The society has since issued a writ against Mr. R. Jones for payment of a principal sum of £90,444 18s. 1d. together with interest of £1,169 9s. 2d. down to 28th February, 1961, and

current interest thereafter at the rate (less tax) of £12 2s. 10d. per diem. The properties comprised in the statement of claim are described as

Stilemans, Brighton Road, Busbridge  
Munstead Oaks  
No. 2 Northanger  
Munstead Heath  
Land adjoining Stilemans  
Mansfield Cottage, Northanger  
Mansfield, Northanger.

31. The difference between the balance of £26,434 shown in the society's books and the principal sum claimed in the writ, £90,444, is accounted for mainly by adjustments made in respect of payments to the society by Freehold Land Finance Company Limited which, on Mr. Jones's oral direction to the society's staff, were credited to his mortgage account relating to "Stilemans". The proceeds of cheques drawn by the company in favour of the society amounting in all to £35,000 were so credited. In addition a cheque to the value of £15,000 received from the society's solicitors, Messrs. Wade and Company of Slough, which was received with a covering letter indicating that it was to be applied to the credit of the account relating to the Oak Farm estate, was also on Mr. Jones's direction credited to the "Stilemans" account. On the other hand, a sum of £10,000 advanced by cheque drawn by the society in favour of Wade and Company, which that firm acknowledged as representing a further advance on "Stilemans" was first debited in the "Stilemans" mortgage account but was later, on Mr. Jones's direction, I am informed, transferred to debit of the "Oak Farm" account.

32. The action in respect of the writ issued by the society in respect of "Stilemans" has not yet come before the Court. The society has, in the meantime, been informed by the Official Receiver (see paragraph 46) that Mr. Jones has transferred his interest in "Stilemans" to Freehold Land Finance Company Limited. I, therefore, withhold further comment on the validity and possible outcome of this claim.

#### **Advances on land known as "Oak Farm", Farnborough, Hampshire**

33. The mortgage deeds relating to the first advances on this land, described the mortgagors respectively as Oak Farm Property Investment Limited, Oak Farm Property Company and Oak Farm Investment Company. The directors of Oak Farm Property Investment Limited and the partners in Oak Farm Property Company and Oak Farm Investment Company were Mr. R. Burgess and Mrs. S. Burgess.

34. At the end of the year 1959 or beginning of the year 1960, the property which had been purchased by these companies in 1958, was stated to have been sold to a Mr. E. V. Rose who in turn mortgaged the property to the society. Mr. Jones informed me that the mortgagors throughout were his nominees. He said he had been the real owner and that the use of nominees had been adopted for income tax reasons. This device, however, had also had the effect, which he did not deny, of deceiving the Registrar who was known to regard with concern advances on any substantial scale by a building society to any of its officers. He nevertheless asserted that everything he had done had been done with the ultimate interests of the members of the society in mind.

35. Mr. R. Burgess said he had been associated with Mr. Jones in business matters for a considerable number of years. He said that throughout the "Oak Farm" transactions he had merely acted as nominee for Mr. Jones. All his instructions and documents for his signature in this matter had come, he said, from Wade and Company, solicitors of Slough, who were also Mr. Jones's solicitors and he had known little or nothing of the detailed transactions. He informed me that in December, 1959, there had apparently been some haste to redeem the mortgages and arrangements had been made for his personal bank account to be credited with a sum of £362,000 in order that he might draw cheques on 31st December, 1959, for the redemption of the mortgages on "Oak Farm". From enquiries I have made elsewhere I have no doubt that the arrangements for the credit to Mr. Burgess's accounts were made by Wade and Company.

36. The purpose of this haste to redeem the mortgages is not entirely clear but it should be borne in mind that an investigation into the society's affairs was then being made by the Registrar under section 11 of the Prevention of Fraud (Investments) Act, 1958, and also that the society would be required to make a return in due course to the Registrar of the financial transactions of the society for the year 1959. By the apparent redemption of the mortgages at the end of the year 1959, and the corresponding advances purporting to have been made to Mr. E. V. Rose early in 1960 the society might technically have excluded these mortgages from the particulars of mortgages outstanding at the end of the year 1959 but in fact the audited annual account included the sum of £354,314 as due on mortgage and this amount was deducted from the balance of the bank account.

37. Mr. E. V. Rose informed me that he knew nothing about the "Oak Farm" transactions but he agreed that when he had been residing in Duhlin early in 1960, where he had gone by arrangement with Mr. Jones, he had signed numerous documents sent to him by Wade and Company and that many of these could have been concerned with "Oak Farm". He admitted that acceptances of offers of mortgages on "Oak Farm" bore his signature. He insisted, however, that he had never understood that he was acting as a nominee for Mr. Robert Jones and had not to his knowledge signed any deed of attorney or any document of authority. Mr. Rose, however, was not possessed of sufficient financial resources to have enabled him to have acted as an independent principal in the "Oak Farm" transactions. His association with Mr. R. Jones apparently came about because of a family relationship. I have no doubt that, as in the case of Mr. Burgess, Mr. Rose was Mr. Robert Jones's nominee in the "Oak Farm" transactions with which he was concerned.

38. The sole partner in the firm of Wade and Company is Mr. R. G. W. Miles. Mr. Miles had been a director of Freehold Land Finance Company Limited. Wade and Company had acted as solicitors to the society and also to Mr. Robert Jones, Mr. R. Burgess and Mr. E. V. Rose. I asked Mr. Miles if he could assist me in connection with the enquiries I was making into the "Oak Farm" transactions but he refused to answer questions on any of his clients' affairs other than those of the society, on a general plea of professional etiquette.

39. In the records of the society substantial repayments of the balance outstanding in respect of the "Oak Farm" mortgage are shown as having been received on the 16th March, 1960. It is of significance that on 18th March, 1960, representatives of the society at a hearing before the Chief Registrar had stated that most of the "Oak Farm" land had been

sold and that considerable repayments had already been made on the advances. It was said that the small balance (£30,000) which remained was well secured on the remainder of the land. The significance of the repayment is to be found in the fact that the Registrar had intimated to the society on the 19th February, 1960, that he proposed to make an order under the Prevention of Fraud (Investments) Act, 1958, forbidding the society or anyone on its behalf from inviting subscriptions to the society's shares or deposits. One of the grounds for the Registrar's proposed order had been stated to be the inadequacy of security for the advances in respect of the "Oak Farm" properties, resulting in a position of potential loss which would jeopardise the society's solvency.

40. The balance of the advance was repaid later in the year and in fact, it appears that the total sum repaid for the redemption of the "Oak Farm" property was in excess of the amount due. The balance has been retained in suspense by the society pending a settlement. The society has since been informed by the Official Receiver (see paragraph 46) that Mr. Jones has transferred his interest in the "Oak Farm" estate to Freehold Land Finance Company Limited.

#### Payments of directors' fees and travelling expenses

41. In paragraph 43 of my interim report, I pointed out that the society's books showed cash payments to Mr. Robert Jones by way of director's fees, £4,000 in 1960 and £1,100 in 1959. A cash payment of £1,100 was also stated to have been made to two other directors in respect of fees in 1958. I could find no authority for these payments.

42. A writ has since been issued on behalf of the society against Mr. Jones claiming inter alia repayment of £6,667 10s. 0d. in respect of these fees, including income tax paid amounting to £467 10s. 0d. I understand that Mr. Jones contests the claim. The action has not been concluded.

#### Payments to the Society by the Freehold Land Finance Company Limited, allocated to the "Stilemans" and "Oak Farm" mortgages

43. I have had produced to me evidence that the Freehold Land Finance Company Limited has paid to the society by way of cheques sums totalling £119,324 15s. 8d. Of this amount, £118,231 10s. 4d. was allocated as follows:—

	<i>"Stilemans" Account</i>			<i>"Oak Farm" Account</i>		
	£	s.	d.	£	s.	d.
1960						
11th June ... ..				4,600	0	0
15th June ... ..				37,539	14	0
27th September ... ..				4,000	0	0
17th October ... ..				10,000	0	0
15th November ... ..	5,000	0	0	16,000	0	0
26th November ... ..				11,091	16	4
1961						
1st January ... ..	20,000	0	0			
13th January ... ..	10,000	0	0			
	£35,000	0	0	£83,231	10	4
Total : £118,231 10s. 4d.						

44. Apart from these payments, two cheques for £8,000 and £15,000 respectively were drawn by Wade and Company in favour of the society on 10th November, 1960, for the credit of the "Oak Farm" account. As explained in paragraph 31 above the cheque for £15,000 was credited to "Stilemans" account in the books of the society. I am informed by Mr. E. G. Roe, who was Assistant Secretary of the society at the time of these transactions, that on the 9th November, 1960, Freehold Land Finance Company Limited had paid two cheques, one for £8,000 and the other for £15,000 to Wade and Company. I have no direct evidence of the connection between these cheques but the obvious conclusion is almost inescapable. It is essential to understand in considering these transactions that the affairs of the society and the company were considerably intermingled under Mr. Robert Jones's direction: that for all practical purposes the company and the society were one concern. Each in turn was used to attract money from the public and large sums were passed from one to the other with seemingly scant regard to their proper application.

#### **Use of the society's premises, staff and amenities by Freehold Land Finance Company Limited**

45. The society has issued a writ against the Freehold Land Finance Company Limited claiming (1) a sum of £24,750 8s. 0d. for moneys expended in discharge of liabilities of the company, for the value of the services of the staff of the society and for the use of the society's motor-cars and (2) a sum of £14,951 5s. 0d. for the use and occupation by the company of the society's head office and branch premises. This action has not yet been settled.

46. On the 5th June, 1961, the Board of Trade appointed Mr. Michael Wheeler, Q.C., and Mr. David Rae Smith, F.C.A., inspectors to investigate the affairs of Freehold Land Finance Company Limited. I understand that they presented an interim report on the 7th July, 1961, and that on 12th July, 1961, the Board of Trade presented a petition to the High Court to wind-up the company. On the 14th July the Court, on the application of the Board of Trade, appointed the Official Receiver to protect the assets of the company pending the hearing of the petition to wind up. At a hearing of the petition Counsel for the company said a scheme was in course of preparation by which sufficient funds would become available to the company to enable creditors ultimately to be paid in full and asked for adjournment of the hearing of the petition, to which the Court agreed. The petition has not yet been finally heard.

#### **State of affairs of the society as at 30th June, 1961**

47. The board of directors of the society has caused to be prepared with the assistance of and in consultation with the society's professional accountants approximate accounts for the half-year ended 30th June, 1961. A statement of the assets and liabilities at that date which I have extracted from those accounts is attached as Appendix E to this report.

48. Allowing for interest on shares at the rate of  $1\frac{1}{2}$  per cent per annum for this period, as determined by the Board (see paragraph 16 of this report), the statement shows a surplus of assets over liabilities of £75,847.

49. The bulk of the society's assets now consists of normal house-property mortgages, the security for which I have commented on in paragraphs 17-27. Of the total mortgage assets of £3,088,226 at 30th June, 1961, only £342,519 related to building finance and similar advances. Of the

latter sum, £90,444 was represented by the "Stilemans" mortgage (excluding interest accrued since 31st December, 1960) and £223,721 represented the balance due on an advance on a block of flats at Eastbourne.

50. The adequacy for the security for the "Stilemans" advance is problematical. An independent valuation of the "Stilemans" estate was made for the Registrar in February, 1960, and the assessment of the estate as then valued was £58,000. It is possible that in the general trend of increasing property values the "Stilemans" estate has sufficiently increased in value to provide adequate security for the mortgage debt.

51. The society has experienced some difficulty with regard to the repayment of the advance on the property at Eastbourne. Notice had been served on the mortgagor for repayment by 7th October, 1961. Liability for payment of part of the interest included in the balance due has been questioned by the mortgagor but the society has taken legal advice and is pursuing its claim for the full amount. From information given to me I see no reason to doubt that the advance is adequately secured by this property.

52. The total book value of the society's premises at 31st December, 1960 was £503,237. As a result of the prompt steps taken by the new Board, all these properties have been sold with the exception of the head office premises at 21, Pall Mall, London, S.W.1, and the branch offices at Ealing, Slough and Manchester. A schedule setting out the book values, the surplus on sale where realised and the estimated surplus or loss on properties not sold is attached as Appendix F. It will be seen that a substantial surplus has been realised or will be realised on the branch properties and this has contributed substantially to the more favourable financial position of the society.

53. The head office premises at Pall Mall (book value £101,648) represent a valuable asset to the society. It seems a matter for further consideration by the Board whether opportunity might be taken in the present favourable position of the property market to dispose of these premises on profitable terms and thus release further liquid funds. It is appreciated that adequate office accommodation is required for the administration of the society and that there may be practical difficulties in the way of obtaining alternative satisfactory accommodation but it seems doubtful whether it is essential for the society's present purposes that premises on such a valuable site should be retained. The society's central administration was removed from Hayes, Middlesex, to Pall Mall when a policy of rapid expansion was being pursued and it may be that other arrangements could now be made with advantage to the society.

54. The society has incurred a loss of £5,110 on the sale of the motor cars. Only one car is now retained for the society's use (book value £570).

55. Provision is made for an anticipated total loss of £22,630 on office equipment and fittings.

56. The item of "Sundry Creditors and Credit Balances" in the balance sheet as at 30th June, 1961 includes two provisions calling for comment viz. "V. Rose Oak Farm Mortgage . . . £25,360 15s. 4d." and "Freehold Land Finance Co. Ltd. Suspense Account . . . £35,000". These provisions are made pending the settlement of the respective claims in respect of the "Oak Farm" mortgages and the allocations of the payments received by the society from Freehold Land Finance Company Limited. They may ultimately involve an adjustment in the amount shown as due on the "Stilemans"

mortgage but as proceedings are still pending no final disposition can be made.

57. I am of the opinion that the statement of assets and liabilities as at 30th June, 1961, although not fully audited, represents a reasonably up-to-date and reliable assessment of the society's financial position and may be said to mark the first phase of the rescue operation that has been undertaken by the new Board. There are many problems still to be resolved, notably the adequacy of the security for the mortgages and the possible recovery of sums claimed from Freehold Land Finance Company Limited but I think it is fair to say that all outstanding liabilities and ascertainable losses have been taken fully into account

#### **Future prospects of the society**

58. The point has been reached where it is appropriate to review the position of the society in the light of its possible future activities.

59. At the time of my appointment as Inspector, the society had applications for the withdrawal of shares to a total amount of £1,088,776. Further applications were received and a position was reached where over £1,500,000, 43 per cent of the society's share capital, was under notice of withdrawal. On the 17th February, 1961, Mr. Partridge sent a circular letter to all members and depositors outlining the recent developments in the affairs of the society and asking members and depositors to refrain from calling for repayments or withdrawals. He explained that such requests could only be met on the basis of a purely nominal amount monthly, as is provided by the rules of the society.

60. At the special general meeting of the society held on 28th March, 1961, Mr. Partridge again stressed the impossibility of paying withdrawals in full in the near future and I understand that the members present at the meeting felt that it would assist the recovery of the society if notices of withdrawal were cancelled.

61. Further letters have been sent to members and depositors urging them to cancel the notices of withdrawal. A copy of Mr. Partridge's letter to that effect dated the 19th May, 1961, is attached to this report as Appendix G.

62. As a result of these appeals, I am informed that applications for the withdrawal of shares amounting to approximately £1,282,000 have been cancelled. Of the balance of approximately £218,000, holders of £76,000 in shares have agreed to postpone their demands until funds can be released, leaving £142,000 still under unqualified notice of withdrawal.

63. The society's liquid funds at 30th September, 1961, consisted of :—

	£
Cash in hand and at Bank ... ..	7,203
Short-term investments with local authorities ...	590,000
	<hr/>
	£597,203

64. Sufficient funds could now be made available to repay in full shares still under notice of withdrawal. Were this to be done, however, it would further postpone the time when any substantial return could be made to the remainder of the shareholders.

65. On the other hand it has to be borne in mind that there is normally a substantial turnover in the shares of most building societies. Probably the great majority of shareholders of a building society regard their investments as more in the nature of a deposit in a savings bank than as a proprietorial share in the capital of a trading concern. Shareholders are frequently referred to in the press and elsewhere as depositors and their shareholdings as deposits. It follows from this basic conception that the investing members tend to use the facilities of a building society in much the same way as those of a savings bank. Over the last fifteen years approximately one-eighth on average of the shares of all societies have been withdrawn every year. Of course these withdrawals have been balanced, and more than balanced, by fresh investments. Nevertheless a typical society operating on orthodox lines must expect to be ready to meet applications for substantial withdrawals in the ordinary course of business. The problem facing the board of directors of this society is whether demands for withdrawal, both normal and abnormal, can be kept within such limits as to enable the society to achieve such a financial position on all counts and to command such general confidence as will enable it to operate as a recognisably sound building society.

66. To do this the society must obviously be able to demonstrate that an investor may normally rely on two basic assumptions (1) that he may withdraw his money when he wishes to and (2) that his shares are fully secure. The first assumption, which I have discussed in the preceding paragraphs, depends to a large extent upon the second assumption. If for any reason the shares are not regarded as secure members will seek withdrawal and fresh investments will not be forthcoming to meet such withdrawals. The fundamental and crucial position of a building society is that it "borrows short and lends long". Public confidence is, therefore, of the essence.

67. Everyone concerned with this society has given much consideration to the essential security of the shares. The Registrar in imposing his orders under the Prevention of Fraud (Investments) Act, 1958, and the Building Societies Act, 1960, referred specifically to the low ratios of the reserves. The auditors in their report on the accounts for 1960 expressed doubt as to the adequacy of the mortgage reserves and the chairman in his comments on the auditors' report did not feel able to assert that the reserves at the end of 1960 would definitely cover all possible losses.

68. Nevertheless, as a result of the radical measures taken by the new Board to reduce the rate of share interest and to sell the branch premises, the reserve position has greatly improved. Both these factors, however, must be regarded as non-recurrent. It is the expressed intention of the Board to restore the rate of interest to a figure comparable with current rates generally. Apart from the surplus that might accrue from the possible sale of the society's head office premises, to which I have referred in paragraph 53 of this report, no further significant capital profits can be expected from the sale of premises or any other assets.

69. On the other hand, the bulk of the society's mortgages are earning interest at 8 per cent per annum,  $1\frac{1}{4}$  per cent above the current normal rate for most building societies. There seems to be no reason why the society should not be run administratively on as economical a basis as other societies, leaving a substantial margin for building up reserves against the general contingent risks of its mortgage portfolio. But this will take time. If a reserve equivalent to the indemnity premiums charged in respect of mortgages still outstanding were restored, a sum of approximately

£45,000 would need to be deducted from the surplus of assets over liabilities—£75,847. This leaves £30,847 as a general reserve. To qualify for designation for trustee investment the society would need to have a minimum of approximately £100,000 as general reserve. There is therefore a margin of approximately £69,000 at least to be made up if the total assets are maintained at the current figure, and the problem facing the Board is whether such additional surplus can be achieved within such time as the investors are content to wait.

70. The position would be radically changed if the society obtained revocation of the orders made by the Registrar and was granted designation under section 1 of the House Purchase and Housing Act, 1959 (for the purposes of trustee investment). The society would then be able to advertise with confidence and establish a normal flow of fresh investment. It would, however, be quite unrealistic to anticipate that the society will be able to achieve this for some time to come. The society would presumably need to demonstrate that its mortgage assets were in fact fully secured; that its reserves were fully adequate, both as to the minimum required for trustee status and generally to meet all reasonable contingencies; and that its mortgage and investment policies conformed to the generally recognised standards and terms of the well-established orthodox societies within the building societies movement.

71. Alternatives to the long-term establishment of the society as a going concern on a sound financial basis are (1) gradually to repay all the shareholders and depositors in instalments as liquid funds accrue from the repayments of mortgages or (2) to effect a transfer of engagements to another society.

72. The effect of alternative (1) would be to defer full repayment for many years. Although substantial sums may accrue from the redemption of the mortgage referred to in paragraph 51 and from the settlement of the claims in respect of "Stilemans" and Freehold Land Finance Company Limited most of the mortgages were entered into for terms of 20 years and the average life is still 17-18 years. Although not all the normal mortgages are likely by any means to run the full term—many may well be redeemed earlier because of sales of properties and for other reasons—nevertheless it seems likely that from the past experience of building societies generally a period of ten years might well elapse before the bulk of the investments were repaid. In the meantime the society would be virtually in liquidation with the consequent problems of economic administration.

73. The second alternative is one to which no doubt the Board of Directors will give further consideration. Before, however, another society would be willing to accept a transfer it would need to be satisfied as to the security for the mortgages and to consider the terms of the mortgage contracts in respect of interest and otherwise. Nevertheless this might prove to be a practicable solution as a result of the improved financial position of the society.

### Conclusion

74. There is little I need add to the conclusions in my interim report as to the responsibility for the sorry story that had to be told about this society. My further enquiries have added confirmation to the conclusion I reached that this was a case of a society dominated by one man who regarded it virtually as his own private business and who was able, mainly

because of the good repute of building societies in general and the offer of excessive rates of interest on shares, to obtain money from the public on an ever-increasing scale without regard to the essential interests of the investors. It is true that the average investor, provided he receives an attractive and regular return on his investment, is inclined to take little interest in the administration and financial position of his society and thus leaves the way open for the less scrupulous promoter to take advantage of this ready means of raising money on a large scale. The appeal to the less-experienced investor is well illustrated by the extracts from the society's investment brochure which are set out in Appendix H. The Building Societies Act, 1960, however, provides additional safeguards which should discourage the type of exploitation displayed in this case.

75. In submitting this report I should like to place on record my appreciation of the assistance I have received from Mr. Partridge and his co-directors, from the staff of the society, and from Mr. D. F. Thornton-Smith of Calder-Marshall Ibotson and Bound, the society's professional accountants and auditors. My task would have been much more onerous without their help and the information they readily produced. In preparing the material for my reports and in many other ways I have also been greatly assisted by Mr. D. Parr, a member of the investigations staff of the Registry of Friendly Societies, whose knowledge of previous investigations by the Registrar has been invaluable.

DENNIS LEIGH,  
*Inspector.*

17 North Audley Street,  
London, W.1.

18th October, 1961.



# LLOYDS PERMANENT REVENUE AND APPROPRIATION ACCOUNT

1959 £		£	£
	Management Expenses:		
1,560	<i>Directors' Fees</i>		
	Remuneration and Travelling Expenses of Staff and		
50,672	Auditors ... ..		47,285
37,302	Office Accommodation and Expenses ... ..		26,247
13,390	Advertising ... ..		13,902
2,063	Commission and Agency Fees ... ..		26
	Legal Fees:		
—	Court Proceedings ... ..	6,831	
—	Other matters ... ..	168	
			6,999
798	Bank Charges ... ..		538
106,785	Total Management Expenses ... ..		94,997
—	Other Valuation Fees and Expenses re Branch Premises ...		5,897
2,084	Interest on Deposit and Loans (other than Loans from Bank)		2,399
2,779	Interest on Loans and Overdrafts from Banks ... ..		1,315
110	Losses on Mortgages ... ..		405
	Depreciation:		
487	Office Premises (Leasehold)... ..	486	
4,870	Other Assets ... ..	11,369	
			11,855
	Income Tax, being one-quarter of the year 1959/60 and the whole of the year 1960/61. (The Society's assessment is based on the Accounts for the preceding year) ... ..		75,438
100	<i>Profits Tax to 31.12.59</i>		
201,228	Interest to Shareholders for year ended 31st December, 1960		133,275
23,891	<i>Balance carried down</i>		
£370,334			£325,581

1959 £		£
—	Balance brought down ... ..	12,890
	Other Debits and Appropriations:	
—	Provision for anticipated losses on sale of Office Equipment and Cars ... ..	26,230
—	Provision for anticipated losses on Mortgages ... ..	2,000
—	Transfer to Mortgage Reserve ... ..	10,000
23,663	<i>Transfer to General Reserve</i>	
240	Balance carried forward ... ..	120
£23,903		£51,240

## BUILDING SOCIETY

FOR YEAR ENDED 31st DECEMBER, 1960

1959 £		£	£
281,206	Interest on Mortgages ... ..		298,114
	Other amounts paid by Borrowers as consideration for		
30,500	Advances ... ..		2,375
41,134	Bank Interest ... ..		1,805
5,000	Rents and other income from letting Office Premises ...		9,260
12,022	Valuation Fees and Expenses ... ..		337
472	Insurance Commission ... ..		735
	Other Income:		
—	Loss on Mortgage during 1959 partly recovered ...		65
—	Balance, being deficit for year carried down ... ..		12,890

£370,334£325,581

1959 £		£
23,891	Balance brought down	
12	Balance brought forward from last year ... ..	240
	Other Credits and Appropriations:	
—	Transfer from General Reserve ... ..	51,000

£23,903£51,240

**LLOYDS PERMANENT  
BALANCE SHEET AS**

<i>1959</i> £						£	£
4,476,331	Due to Investing Shareholders	...	...	...	...		3,615,222
101,163	Deposits and Loans excluding Bank Loans	...	...	...			70,669
	<b>Other Liabilities:</b>						
25,928	Income Tax to 5th April, 1961	...	...	...	...	66,760	
100	Profits Tax to 31.12.59						
130,094	Interest Payable						
—	Sundry Contributors (per contra)	...	...	...	...	16,913	
44,089	Sundry Creditors and Credit Balances	...	...	...	...	47,693	
							131,366
	<b>Special Reserves:</b>						
—	Mortgage Reserve	...	...	...	...		10,000
	<b>General Reserve and Balance carried forward:</b>						
62,250	General Reserve	...	...	...	...	11,250	
240	Balance carried forward	...	...	...	...	120	
							11,370

**Notes:**

- (1) No provision has been made in these Accounts for claims which have been made against Freehold Land Finance Co. Ltd.
- (2) As at 31st December, 1960, Withdrawal Notices totalling £706,168 had been received and were unpaid at that date.
- (3) As at 31st December, 1960, the Society was committed in the sum of £35,000 for building of branch premises.

E. PARTRIDGE }  
HUGH LLOYD } Directors

E. G. ROE, Secretary

£4,840,195

£3,838,627

## BUILDING SOCIETY

AT 31st DECEMBER, 1960

1959 £		£	£
	Balance due or outstanding on Mortgages, excluding prospective interest:		
	From bodies corporate ... ..	237,391	
	From persons other than bodies corporate where debt exceeds £5,000 ... ..	124,206	
	Others ... ..	2,920,500	
3,993,526			3,282,097
—	Less Provision for anticipated losses on Mortgages ...		2,000
3,993,526			3,280,097
288,136	Cash on Deposit and Current Accounts at Banks ... ..		3,325
—	Supreme Court Pay Office (per contra) ... ..		16,913
254	Cash in Hand ... ..		175
491,183	Office Premises (including £7,290 (£7,776) in respect of leasehold premises with less than 50 years to run). At cost of purchase and conversion, or rebuilding less £973 amortization of lease ... ..		503,237
	Other Assets:		
45,023	Office Equipment and Fittings ... ..	42,840	
14,386	Motor Cars ... ..	11,600	
		54,440	
—	Less Provision for anticipated losses on sale ... ..	26,230	
		28,210	
5,989	Sundry Debtors and Debit Balances ... ..	4,688	
1,798	Payments in Advance ... ..	1,982	
			34,880
<u>£4,840,195</u>			<u>£3,838,627</u>

## Appendix B

### REPORT OF THE AUDITORS TO THE MEMBERS OF LLOYDS PERMANENT BUILDING SOCIETY

The foregoing Balance Sheet and Revenue and Appropriation Account are properly drawn up in accordance with the requirements of the Building Societies Act, 1960, and the regulations made thereunder. In our opinion they give respectively a true and fair view of the state of the Society's affairs as at 31st December, 1960, and of its income and expenditure for the financial year ended on that date subject to the following:

1. We understand that the Minutes of Meetings of the Directors prior to 25th January, 1961, do not record correctly the names of the Directors who attended the Meetings and that there was rarely, if ever, a quorum of Directors present at any one Meeting. As a result, we are uncertain as to the validity of decisions taken and acts done which would properly require the sanction of the Board of the Society.
2. We have been unable to establish to our satisfaction that the Society's reserves against possible losses on foreclosure or sale of mortgaged properties are adequate, for the following reasons:
  - (a) In a number of cases the amount of the mortgage advance appears to be excessive in relation to the value of the property upon which the advance was made;
  - (b) No insurance was effected by the Society to cover the additional risk involved in such advances;
  - (c) Insufficient investigation appears to have been made into the financial circumstances of borrowers from the Society.
3. The repayment of investments (withdrawals) has not been made in rotation according to the respective dates upon which the notices of withdrawal expire. In addition many members who requested that their share monies be transferred to deposits in Freehold Land Finance Company Ltd. were paid interest up to the date of transfer at the full rate applicable to their shares instead of at the reduced rate applicable in cases where withdrawal takes place before completion of the contractual period.
4. Various sums totalling £789 were paid to Mr. Robert Jones during the year and have been entered in the books of the Society as Travelling Expenses. We have received no satisfactory explanation of these items.
5. On the 30th June, 1960, a sum of £4,000 was paid to Mr. Robert Jones and was recorded in the books of the Society as Directors' Fees. This payment is the subject of a claim by the Society against Mr. Jones and because of such claim has been dealt with by inclusion in the Society's Balance Sheet instead of in the Revenue and Appropriation Account.
6. During the year 1960 mortgage advances totalling £427,000 were made to Mr. Robert Jones or his nominee. During the same year amounts (to some of which further reference is made in paragraph 7 of this Report) apparently in reduction of these advances were paid to the Society. We are not satisfied that the said mortgage advances were properly authorised (in particular no Board Minute can be traced authorising part thereof totalling £65,000) or that the Society was at all times in possession of adequate security for such advances. The amount of the mortgage balance outstanding at 31st December, 1960, on one of the properties concerned is a matter of dispute between the Society and the borrower and because of such dispute, the adequacy of the security in respect of such balance cannot yet be established.
7. During the course of the year sums totalling £111,231 10s. 4d. were received from Freehold Land Finance Company Ltd. apparently in part redemption of two mortgages in the names of Mr. Robert Jones and his nominee. The Minutes of the Meetings of the Directors of the Society

make no reference to such receipts and in respect of the said sums we have been unable to obtain all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit.

8. On the 8th September, 1959, the sum of £1,750 was advanced on mortgage. The total of capital and accrued interest outstanding at the 31st December, 1959, was £1,841 17s. 6d. On the 22nd January, 1960, the sum of £1,718 5s. 6d. was received by way of repayment of the sum advanced. The difference of £123 2s. 0d. appears in the accounts as Loss on Mortgage. We have received no satisfactory explanation of this transaction.
9. In the Revenue and Appropriation Account provision has been made (in respect of the period of six months ended 31st December, 1960) for interest on shares at a rate of  $1\frac{1}{2}$  per cent per annum instead of at rates varying between 4 per cent and 5 per cent per annum previously applicable to such shares. This reduced provision has been brought into the Revenue and Appropriation Account on the basis of the Directors' intention (as communicated to us) to reduce the interest rate on shares retrospectively to 1st July, 1960, under Rule 11 (1) of the Rules of the Society.
10. During part of the year use of the Society's premises and facilities was enjoyed by Freehold Land Finance Company Ltd. We have been unable to obtain evidence of the terms upon which such use was granted. As stated in Note (1) on the Society's Balance Sheet, no provision has been made in this account for claims which have been made by the Society against that Company.
11. During the period between April and August, 1960, we were not given access to the books, accounts, records and vouchers of the Society. There have not been produced to us during the audit of the present accounts certain of the Society's mortgage ledgers for 1958 and 1959 which are relevant to this audit.
12. In our opinion during the year 1960 the Society did not maintain a satisfactory system of control over its transactions and records and in particular it failed to maintain a system of control and inspection of its books of account.

CALDER-MARSHALL, IBOTSON & BOUND,  
*Chartered Accountants.*

11, 12 & 13, Dowgate Hill,  
London, E.C.4.

2nd June, 1961.

## Appendix C

### REPORT OF THE DIRECTORS

In accordance with Statute, the Directors present the Annual Report and Accounts for the year ended 31st December, 1960.

Members are reminded that the present Directors were not elected to Office until early 1961, and, therefore, they have no responsibility for the financial position revealed in the accompanying Accounts.

The Directors are required by the Building Societies Act, 1960, to include a statement concerning various matters, as under, in their Report to be attached to the Accounts submitted to the Annual General Meeting.

As announced at the Annual General Meeting on 26th April, 1961, the Accounts for the year to 31st December, 1960, were not then available arising from the fact that the Auditors, for various reasons then given, were unable to complete the audit.

#### Shares and Deposits

The total amount received in new instalments during the year was £558,723. This figure represents monies received before the Order served on the Society on 16th December, 1960, which precluded the Society from accepting further sums in respect of shares or deposits. Certain monies received after that date were returned forthwith to the senders with the necessary explanation.

The amount repaid to members and depositors during the year, excluding interest, was £1,475,953. The Auditors' Report annexed to the Accounts points out that much of this was repaid to members out of rotation, and this was a gross violation of the Society's own Rules. The Inspector in his Interim Report draws attention to this and in fact it was one of the grounds upon which the Chief Registrar appointed the Inspector. No withdrawals of shares or deposits have been paid since the new Board were appointed to Office, in accordance with the undertaking of the Chairman at the Special General Meeting held on 28th March, 1961.

Where transfers of shares or deposits were made to Freehold Land Finance Company Limited at the request of members or depositors, and interest on withdrawal was calculated at the full rate, the Finance Company agreed to refund to the Society the excess interest so paid. Some of this excess has already been recovered in this way, and the Society holds a sum of £1,000 belonging to the Freehold Land Finance Company Limited on Deposit, from which the balance of excess interest can be recovered.

#### Mortgages

A total of £745,103 was advanced on Mortgage during the year, and of this a sum of £163,450 was advanced to 73 new borrowers. The balance of £581,653 was advanced to existing borrowers.

Special advances, as defined in Section 1 of the Building Societies Act, 1960, were made on 5 mortgages to a total of £578,300, being 77.6 per cent of total advances made during the year. This proportion of special advances is grossly excessive, and further comment is made in the Auditors' Report regarding the substantial advances made to the former Chairman, which are part of the amount quoted.

There were 6 properties upwards of 12 months in possession of the Society on 31st December, 1960, and a further 4 properties which, though not in the Society's possession, were upwards of 12 months' repayments in arrear. The total amount of arrears involved in these 10 properties was £1,766.

There was little or no control of the borrowers' accounts in the latter part of 1960 owing to a complete lack of direction by the former management, and the arrears situation was, for this reason, not receiving the careful and constant attention which such a matter demands.

## **Total Assets and Reserves**

The total assets decreased during the year by an amount of £1,001,568, reducing to £3,838,627 at 31st December, 1960. Over £700,000 of the reduction occurred in the balance of Mortgages which fell from £3,993,526 to £3,280,097, after provision of £2,000 for anticipated losses. This reduction was brought about by the receipt of £1,756,401 in repayments and redemptions, whereas only £745,103 was advanced during the year.

The differences of over £1,000,000 between repayments and advances increased the liquid funds of the Society, and these were utilised in the repayment of shares and deposits as mentioned above.

In order to meet the trading deficit for the year; to make provision for anticipated losses on the sale of Office Equipment and Cars, and to create a vitally important Mortgage Reserve, it was necessary to utilise a sum of £51,000 by transfer out of the General Reserve. The total reserves at 31st December, 1960, amounted to £21,370 which represented only  $\frac{1}{4}$  per cent of total Assets. The new Directors will make every effort to increase the Reserves of the Society.

## **Investments and Cash Balances**

The Society had no investments. The Cash Balances amounted to £3,500 which represents a liquidity ratio of one-eleventh of 1 per cent. The new Directors have taken urgent steps to increase the liquidity ratio.

## **Building Societies Act, 1960**

The Board welcomes the new Act but recognises that although it may take some time to measure up to the standards required under the Act, nevertheless they will lose no time in carrying out such re-organisations as are requisite to this end.

## **Directors**

In accordance with the provision of Rule 35 (under which the new Directors were appointed), Mr. Ernest Partridge, Sir Hugh Lloyd, Mr. Victor Brooks and Mr. William Harris retired from Office at the Annual General Meeting held on 26th April, 1961 (and later adjourned) and were all duly re-elected.

## **Auditors**

The retiring Auditors, Messrs. Calder-Marshall, Ibbotson & Bound, expressed their willingness to continue in Office, and were duly re-appointed at the said Annual General Meeting.

The Board wish to express their appreciation of the services rendered by the Auditors, which have been far in excess of the duties normally required under their appointment. They have at times, most willingly, supplied members of their own Staff to carry out routine duties necessary to the preparation of the Accounts and to the clarification of the financial affairs generally.

## **Staff**

The Board record warm thanks to the Staff who have loyally worked for the Society and continue to serve in most difficult and anxious times.

## **Annual General Meeting**

The Annual General Meeting in accordance with the provisions of the Building Societies Act, 1960, was summoned to be held at Caxton Hall on 26th April, 1961. For the reasons then given, upon the conclusion of the transaction of the business which could properly be done as above, the meeting was adjourned sine die until the Accounts could be laid before the Meeting.

The Adjourned Annual General Meeting will be held at Caxton Hall, Westminster, S.W.1, on Wednesday, 12th July, 1961, at 10.30 a.m.

E. PARTRIDGE,  
*Chairman.*

19th June, 1961.

COPY

## LLOYDS PERMANENT BUILDING SOCIETY

21, Pall Mall, London, SW.1  
Whitehall 8501/3

## CHAIRMAN'S OBSERVATIONS

The present position of the Society can now be judged in the light of the Accounts for 1960 which were not available at the Annual General Meeting held on 26th April. This necessitated the adjournment of that meeting until the Accounts were ready to be distributed to members.

Reference is now made to the Report of the Auditors accompanying the 1960 Accounts, bringing to the notice of members certain points on which the Auditors have not been completely satisfied. Some of these points have been referred to in the Directors' Report attached to the Accounts, but members are reminded that the present Directors have no responsibility for the situation which existed at the end of 1960. It is nevertheless a matter for concern that such conditions did exist and the present Directors have already taken, and will continue to take, firm measures to establish the Society on a sound basis. When the time comes for the Auditors to make their Report on the 1961 Accounts, the present Directors are confident that no Report other than that required by Statute will be necessary.

As to the Auditors' Report for 1960, members should be assured that much has been done to rectify the matters therein stated; the following comments give details:

*Paragraph 2. The closest watch is being kept by the Management on the accounts regarding mortgaged properties. Although it cannot be said that the present reserves will definitely cover all possible losses, it can be stated emphatically that the Directors intend steadily to increase the reserves while at the same time ensuring, as far as is humanly possible, that by constant care and attention losses will be kept to the absolute minimum.*

*Paragraph 3. These matters are dealt with in the Directors' Report.*

*Paragraphs 4 and 5. The members present at the Annual General Meeting resolved that no Directors' remuneration should be authorised. Therefore this item of £4,000, together with Directors' Fees in respect of previous years, are included with other claims in a Writ issued by the Society against Mr. R. Jones and Freehold Land Finance Co. Ltd., jointly.*

*Paragraphs 6 and 7. The transactions herein are the basis of claims against Mr. R. Jones and/or Freehold Land Finance Co. Ltd.*

*Paragraph 8. Enquiries are being pursued to ascertain whether accountability for this deficiency can be laid at the door of any person with a view to recovery of the money which, at present, must be regarded as a loss.*

*Paragraph 9. See paragraphs which follow entitled "Interest payable by the Society."*

*Paragraph 10. As stated above, legal action has already commenced against Mr. R. Jones and/or Freehold Land Finance Co. Ltd.*

*Paragraph 11. The Society has commenced legal proceedings against Mr. R. Jones for the return of these ledgers which the Society alleges are in his possession.*

*Paragraph 12. Members are assured that the strictest control is being exercised over all transactions and that the Society's records are now up to date. The fullest information is available to the Directors at their very frequent meetings.*

The adverse circumstances arising in 1959 and 1960 persisted well into 1961, for it was not until the new Board had been elected, in February and March of

this year, that steps were taken drastically to reduce current expenditure and generally to bring the Society on to a sound footing. Therefore it can be expected that the first half year of 1961 will result in a revenue loss, but more than offset by the judicious realisation of assets, including branch premises (mentioned later) and consequential economies in the second half of the year 1961.

Having regard to the circumstances as outlined in the above paragraphs, and if there were to be a balance carried forward into 1961, however small, and appropriate provisions and reserves made, it was necessary to utilise the greater part of the General Reserve which had been accumulated during previous years. Thus the balance in General Reserve is now only £11,250 and in Mortgage Reserve £10,000. These figures are much below what they should be in a firmly-founded Building Society.

#### **Interest payable by the Society**

At the Special General Meeting the members present were very emphatic that they would prefer to suffer a temporary curtailment of interest rather than impair their Capital invested in shares in the Society.

The Directors are in no doubt that it could not be right to pay interest at such a rate as would weaken the resources of the Society and extinguish all reserves. In accordance with the provisions of Rule 11 (1) it has been decided that the rate of interest to be paid on all Shares (with the exception of Subscription Shares) for the year ending 30th June, 1961, shall be  $1\frac{1}{2}$  per cent. The basis of the calculation of the charge for interest on shares for the period 1st July to 31st December, 1960, shown in the accompanying Accounts is therefore at the rate of  $1\frac{1}{2}$  per cent per annum.

For the future a more hopeful view can be taken, and so, with effect from 1st July, 1961, it is the intention of the Board to pay interest at the rate of  $3\frac{1}{2}$  per cent per annum on all shares, interest to be payable half-yearly on 31st December and 30th June of each year. This latter decision has been taken to meet the expressed wishes of many members. Further on 1st July, 1961, all shares will be consolidated into one class with equal rights in accordance with the Rules of the Society.

Warrants calculated at  $1\frac{1}{2}$  per cent for the year to 30th June, 1961, will be sent on 30th June next to members holding the Society's Contract Shares, thus bringing the interest on these shares up to date.

The effect on the remaining classes of shares will be as follows:

- (a) On Contract Shares where interest accrues at various dates throughout the year a payment will be made at 30th June to bring the interest up to that date. The Shareholders concerned will be advised individually by letter of the details relating to their respective cheques.
- (b) On Five Year Term Shares a payment will be made at 30th June which will be at the rate of  $1\frac{1}{2}$  per cent for the year to that date. Interest accrued in respect of any period previous to 1st July, 1960, and as yet unpaid will be discharged at the same time.
- (c) Holders of Ordinary Shares on which interest was paid at 31st December, 1960, for a half year will not be receiving any further interest at 30th June, as they have already received the equivalent of 2 per cent for the year.
- (d) Subscription (Savings) Shares. The administration costs involved in the keeping of these shares is too high to be justified in present circumstances and as the Society must economise in every direction it can no longer deal with Subscription Shares. In addition, by reason of the fact that under the Order made upon the Society on 16th December, 1960, no further subscriptions could be accepted, this type of share cannot be brought to maturity and therefore cannot qualify for transfer into one of the other classes of share.

It has been decided that all balances on Savings Shares shall be treated as Deposit Accounts, as in fact they are until maturity. Interest at 3 per cent has

accrued on the balances outstanding on these shares, and will continue to accrue at this rate.

#### **Withdrawals**

The Directors have paid strict regard to the decision of the members present at the Special General Meeting, that no funds should be released at present in repayment of shares or deposits.

As a result of the strong feeling of members at the Special General Meeting that withdrawal notices already lodged should be cancelled, many members immediately and spontaneously notified the Society that they wished to co-operate with the Board and to cancel their withdrawal notices forthwith. In April a circular was sent to the remaining members and depositors inviting them to join with the assenting members by signifying their agreement to cancel their withdrawal notices. There was a very satisfactory response to this request; with relatively few exceptions members and depositors have co-operated wholeheartedly and have now cancelled their withdrawal demands.

Nevertheless, it must be stressed that those members who have not yet felt themselves able to agree to cancel their notices, cannot be repaid at the present time. As previously stated, and it must be reiterated, no one member can be given priority over any other; no funds will be released until the Board is fully satisfied that it is in the interest of members generally that releases should be made.

#### **Sale of Branches**

The Board has proceeded with the sale of all Branch premises and contracts for sale have been entered into in respect of all but two of them: active negotiations are proceeding in respect of these latter.

In order to save expense, however, all branch offices, whether sold or not, were closed at the end of April, 1960.

#### **Motor Cars**

All surplus motor cars have now been recovered and sales have, in most cases, been effected. As an outcome of the Writ issued by the Society for recovery, the Lincoln Car, previously used by the former Chairman, is now under the Society's control. Extensive repairs were necessary on this, and on many of the other cars, in order to put them in saleable condition.

Once again it is emphasised that the Directors feel confident that with the co-operation and goodwill of members, a difficult position will have been remedied and the Society can look forward to a good and useful future.

ERNEST PARTRIDGE.

19th June, 1961.



LLOYDS PERMANENT  
APPROXIMATE STATEMENT OF ASSETS AND

											£
Due to Investing Shareholders	...	...	...	...	...	...	...	...	...	...	3,524,460
Deposits and Loans	...	...	...	...	...	...	...	...	...	...	76,600
<b>Other Liabilities:—</b>											
Income Tax to 5th October, 1961...	...	...	...	...	...	...	...	...	...	...	32,500
Sundry Contributors (per contra)...	...	...	...	...	...	...	...	...	...	...	154
Sundry Creditors and Credit Balances	...	...	...	...	...	...	...	...	...	...	74,716
Balance ...	...	...	...	...	...	...	...	...	...	...	75,847
											<u>£3,784,277</u>

## BUILDING SOCIETY

## Appendix E

## LIABILITIES AS AT 30TH JUNE, 1961

	£	£
Balance due or outstanding on Mortgages, excluding prospective interest		3,090,226
Less Provision for anticipated Losses on Mortgages ... ..		2,000
		<hr/> 3,088,226
Investments ... ..	149,663	
Interest accrued ... ..	930	
	<hr/>	150,593
Cash on Deposit and Current Accounts at Banks		
Cash on Deposit and Current Accounts ... ..	43,780	
Add Treasury Bills maturing 1st July, 1961 ... ..	125,000	
	<hr/>	168,780
Less Interest warrants issued 30th June, 1961 ... ..	50,633	
	<hr/>	118,147
Supreme Court Pay Office (per contra) ... ..		154
Cash in hand ... ..		60
Branch Office Premises sold since 30th June, 1961 (at approximate values realised on sale) ... ..		252,640
Head Office and Branch Premises not sold (at cost less £24,810 written off)		142,696
Other Assets:—		
Office Equipment and Fittings ... ..	38,623	
Less Provision for anticipated Losses on sale ... ..	28,623	
	<hr/>	10,000
Motor Cars at cost less depreciation ... ..	570	
	<hr/>	10,570
Sundry Debtors and Debit Balances ... ..		20,183
Payments in Advance ... ..		1,008

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 £3,784,277

## HEAD OFFICE AND BRANCH PREMISES

Premises Sold or to be Sold	Book Value	Selling Price on Completion prior to 30th June, 1961	Professional Charges on Completion	Surplus on Sale	Estimated Realisable Value on Sale	Estimated Surplus or Loss (-) on Sale
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Bath ...	4,594 8 11	8,500 0 0	301 15 0	3,603 16 1	—	—
Belfast ...	55,593 13 0	65,000 0 0	1,578 9 3	7,827 17 9	58,650 0 0	17,316 0 0
Birmingham { Land ...	41,333 13 9	—	—	—	25,850 0 0	-2,604 0 0
Birmingham { Building ...	28,453 16 9	—	—	—	—	(Architects and Quantity Surveyors' charges)
Brighton ...	12,591 0 5	13,000 0 0	349 0 0	59 19 7	—	—
Cardiff ...	24,739 13 6	34,000 0 0	286 5 0	8,974 1 6	35,160 0 0	2,746 0 0
Derby ...	32,413 15 1	—	—	—	9,600 0 0	2,553 0 0
Ealing (Leasehold) ...	7,047 0 0	—	—	—	18,840 0 0	3,075 0 0
Edinburgh ...	15,765 2 4	—	—	—	13,000 0 0	-9,955 0 0
Exeter ...	22,954 12 5	—	—	—	42,020 0 0	1,879 0 0
Glasgow ...	40,141 4 7	—	—	—	14,360 0 0	-1,267 0 0
Hayes ...	15,626 16 8	—	—	—	—	—
Maidenhead ...	18,156 9 7	21,500 0 0	558 7 6	2,785 2 11	35,160 0 0	1,800 0 0
Taunton ...	33,359 14 9	—	—	—	—	—
	£352,771 1 9					
Total book value of branches sold	115,675 5 5	£142,000 0 0	£3,073 16 9	£23,250 17 10		
Total book value of branches subject to sale	237,095 16 4				£252,640 0 0	£15,543 0 0
	£352,771 1 9					
Premises to be Retained	Book Value	To be written off	Book Value carried forward			
	£ s. d.	£ s. d.	£ s. d.			
Manchester ...	54,809 16 5	24,809 16 5	30,000 0 0			
Slough ...	11,046 14 8	—	11,047 0 0			
Pall Mall ...	101,648 19 1	—	101,649 0 0			
	£167,505 10 2	£24,809 16 5	£142,696 0 0			

COPY

## LLOYDS PERMANENT BUILDING SOCIETY

21, Pall Mall, London, S.W.1  
Whitehall 8501 (10 Lines)

## CHAIRMAN'S OFFICE

19th May, 1961.

Dear Member,

## IMPORTANT NOTICE AFFECTING YOUR INVESTMENT

We do not appear to have had any reply from you to the letter sent to you on 24th April, 1961. Perhaps you thought a reply was not called for, but I do want to assure you that it really is necessary that you do cancel the notice of withdrawal already lodged with the Society.

In order to put the matter beyond doubt, may I remind you that I made plain in my Statement to the Special General Meeting that we cannot pay out one member unless, and until, we are able to pay all.

The simple fact is that following the Statement, and in accordance with the terms of the decision of the members in General Meeting, the Directors undertook not to pay out any withdrawals until the Society was established on a firm basis. I must, therefore, point out that whether you cancel the notice of withdrawal or whether you do not, you cannot be repaid at the present time.

But if even only a few members do not cancel their notices, then the Society cannot pay interest on 30th June of this year. Thus the Society would be in default and inevitably it would have to be wound-up. This would not only delay the payment out for *some* years but would result in very heavy losses to each and every member. It will thus be seen that not only would you not obtain your money for a very much longer time than if you had consented to cancel; not only would you receive no interest in the meantime; but in the ultimate result you might have returned to you even less than half the money you had invested.

On the other hand, if you will cancel your notice of withdrawal it could well be that by this time next year the Society might be on such a sure and firm footing that if then you made application for withdrawal you could be repaid without any trouble.

Your Directors are working strenuously but they do need active co-operation from all members many of whom have co-operated wholeheartedly. In the belief that you would wish to do likewise I enclose another slip for you to sign and return to me in the prepaid envelope. I am sure you will not regret it.

Yours faithfully,

ERNEST PARTRIDGE,  
*Chairman.*